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FISCAL IMPACT STATEMENT

LS 6980

BILL NUMBER: HB 1245

NOTE PREPARED: Feb 22, 2005

BILL AMENDED: Feb 21, 2005

SUBJECT: Coal Gasification.

FIRST AUTHOR: Rep. Woodruff

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill provides an Income Tax Credit for placing into service an integrated coal gasification power plant.

Effective Date: (Amended) January 1, 2006.

Explanation of State Expenditures: (Revised) *Indiana Economic Development Corporation (IEDC)*: The bill provides for the IEDC to administer the application and approval process for the tax credit, and to monitor compliance by the tax credit recipient with the provisions the tax credit agreement between the IEDC and the credit recipient. The IEDC should be able to implement this program with current staffing and resource levels.

Department of State Revenue (DOR): The DOR would incur administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. The DOR should be able to implement these changes with current staffing and resource levels

Indiana Utility Regulatory Commission (IURC): The IURC would have to make determination relating to the public necessity for new integrated coal gasification powerplants proposed to the IEDC for the investment tax credit.

Explanation of State Revenues: (Revised) *Summary*: The Coal Gasification Technology Investment Tax Credit could potentially reduce revenue from the Utilities Receipts Tax, the Adjusted Gross Income (AGI) Tax, the Financial Institutions Tax, and the Insurance Premiums Tax when a taxpayer undertakes qualified investment in an integrated coal gasification powerplant. The potential tax credits that may be granted under this program is indeterminable and would depend upon review and approval by the IEDC and a determination

by the IURC that the public convenience and necessity requires the construction of the integrated coal gasification powerplant. The net revenue impact of the tax credit also depends on the extent that tax collections on powerplant employees and other taxable activities attributable to the powerplant is less than or exceeds the credits granted to the taxpayer for the powerplant investment. However, if the powerplant investment would have occurred in the absence of the tax credit, the net impact would be the total credits claimed by the taxpayer.

The tax credit would be effective beginning in tax year 2006. However, since a review by the IEDC and the IURC is required, and since the credit may not be taken initially until the year a coal gasification plant is placed in service, a fiscal impact from this credit presumably will not arise for several years.

As an example, however, the tax credit for qualified investment totaling \$1,000 M would be \$75 M. The credit could be taken in 10 equal installments of \$7.5 M annually.

Background: The bill establishes a tax credit against a taxpayer's tax liability arising under the Utility Receipts Tax, AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax for qualified investment in an integrated coal gasification powerplant. The credit is equal to 10% of the first \$500 M in qualified investment, and 5% of the qualified investment exceeding \$500 M. The credit could be taken by the taxpayer in 10 annual installments beginning with the year in which the taxpayer places the integrated coal gasification powerplant into service. The annual credit installment is equal to the lesser of: (1) one-tenth of the credit amount; or (2) the greater of: (a) 25% of the taxpayer's total state tax liability for the taxable year or (b) the taxpayer's liability for the Utility Receipts Tax for the taxable year. The taxpayer's total state tax liability is the total of the liabilities under the Utility Receipts Tax, the AGI Tax, Financial Institutions Tax, and Insurance Premiums Tax for the taxable year.

To qualify for the tax credit, the taxpayer must make qualified investment in an integrated coal gasification powerplant. The investment includes expenditures in real and tangible personal property incorporated in such a powerplant, and transmission equipment located at the powerplant site and used to serve the powerplant. The powerplant must (1) be newly constructed; (2) convert coal into synthesis gas that can be used as a fuel to generate energy; (3) use the synthesis gas as a fuel to generate electric energy; and (4) be dedicated primarily to serving Indiana retail electric utility consumers. Credits would be approved by the IEDC upon entering into a tax credit agreement with the taxpayer. The provisions of the agreement would include:

- (1) a requirement that the taxpayer obtain from the IURC a determination that public convenience and necessity requires the construction of the powerplant;
- (2) a requirement that the taxpayer maintain operations at the powerplant for at least 10 years during the time the tax credit is available;
- (3) a method for determining the number of new employees employed during the taxable year performing jobs not previously performed by an employee; and
- (4) a requirement that the taxpayer pay an average wage each taxable year that the credit is available at least 150% of the average wage in the county where the powerplant is located.

Revenue from the Utility Receipts Tax, the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%).

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Economic Development Corporation; Indiana Utility Regulatory Commission; Department of State Revenue.

Local Agencies Affected:

Information Sources:

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